

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 SS-15 SP-02 /031 W

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P 281640Z APR 75

FM AMEMBASSY BOGOTA

TO SECSTATE WASHDC PRIORITY 8341

C O N F I D E N T I A L BOGOTA 3867

PLEASE PASS FOR BOEKER/EB AND MORRIS/E FROM
CMORLES FRANK/SP

EO 11652: GDS

TAGS: EFIN CO

SUBJ: DRAFT PAPER ON INTERNATIONAL RESOURCES FINANCING

I WOULD LIKE TO MAKE THE FOLLOWING OBSERVATIONS CONCERNING
SUBJECT DRAFT:

1. DESCRIPTION AND ANALYSIS OF OPTION 1 IS VERY GOOD-
ONLY MINOR PROBLEMS.

2. DISCUSSION OF OPTION 2 AND COMMODITY BOND ISSUE
NOT AS STRONG.

3. THERE ARE REALLY THREE SUB-OPTIONS UNDER OPTION 2.

A) A NEW INSTITUTION THAT WOULD BECOME PART OF
THE WORLD BANK GROUP (SUCH AS THE IFC).

B) A SPECIAL FUND ADMINISTERED TOTALLY BY THE
EXISTING IBRD BUT WITH SPECIAL WEIGHTED VOTING
PROCEDURES ON LOANS FROM THE FUND THAT REFLECT
DONOR CONTRIBUTIONS.

C) MORE RESOURCES LENDING BY THE IBRD.

4. TWO SUB-OPTIONS OF OPTION 2 IN SUBJECT DRAFT SEEM
TO REFER TO 3 A AND 3C ABOVE. THE INSTITUTION
DESCRIBED IN 3 B ABOVE, HOWEVER, SEEMS TO ME TO BE THE
MOST SENSIBLE AS IT HAS MANY OF THE PROS AND AVOIDS
MANY OF THE CONS OF OPTION 2 IN SUBJECT DRAFT PAPER.

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IN PARTICULAR, 3 B IS A USEFUL WAY TO GET OPEC FINANCING

ACCOMPANIED BY GREATER OPEC CONTROL OF LENDING BUT WITHOUT CHANGING OVERALL VOTING PATTERN OF IBRD.

5. THE DISCUSSION OF COMMODITY BONDS AND THE ALTERNATIVE BOND CONCEPT HAS MANY PROBLEMS. THE PRECISE FINANCIAL INSTRUMENTS USED TO FINANCE A RESOURCE LENDING INSTITUTION IS A SECOND-ORDER, BUT VERY COMPLICATED QUESTION WHICH NEEDS MORE WORK. THE MOST IMPORTANT PRINCIPLE THAT SHOULD BE STRESSED IS THE NEED FOR A LENDING INSTITUTION TO SEARCH FOR INNOVATIVE MEANS TO FINANCE RESOURCE DEVELOPMENT, GIVEN THE PECULARITIES OF THIS FORM OF INVESTMENT, NAMELY, LONG LEAD TIMES, ECONOMICS OF SCALE, AND HIGH PRICE VOLATILITY.

6. AS EXAMPLES OF SOME OF PROBLEMS WITH COMMODITY BOND DISCUSSION:

A) IT IS ASSUMED THAT A COMMODITY BOND WOULD NOT PAY INTEREST. THIS NEED NOT BE THE CASE.

B) IDEA BEHIND COMMODITY BOND IS TO SHIFT SOME DOWNSIDE RISK FROM PRODUCERS TO BONDHOLDERS. ALTERNATIVE CONCEPT AIMED AT ELIMINATING DOWNSIDE RISK TO BONDHOLDERS.

C) THERE ARE OTHER WAYS OF ELIMINATING DOWNSIDE RISK, E.G. A CONVERTIBLE COMMODITY BOND WHICH IS A FINANCIAL INSTRUMENT AT LOW PRICES BUT CAN BE CONVERTED TO A COMMODITY BOND AT HIGHER PRICES.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENT DRAFT, POLICIES, BANK LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 28 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BOGOTA03867
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750148-0788
From: BOGOTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975049/aaaaahsc.tel
Line Count: 89
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 05 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 SEP 2003 by ShawDG>; APPROVED <17 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: DRAFT PAPER ON INTERNATIONAL RESOURCES FINANCING I WOULD LIKE TO MAKE THE FOLLOWING OBSERVATIONS CONCERNING
TAGS: EFIN, CO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006